



The Fiscal Focus

An update for Vermont Legislators from the Joint Fiscal Office

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Dear Vermont Legislator,

THE FISCAL FOCUS is a nonpartisan update prepared by the Joint Fiscal Office staff to keep legislators informed of events during the off-season. As your staff, we believe it is important for a citizen legislature to be kept informed of local, state, and federal financial developments while the General Assembly is adjourned. It is important for us to hear what topics interest you for future issues. If you have any comments or suggestions, please let us know.

Sincerely, The Joint Fiscal Office

****ALL LEGISLATOR BRIEFING****

Mark your calendars; it's almost that time of the year again! The annual All Legislator Briefing will be held on Tuesday, December 1, 2015 from 10:00 a.m. to 3:00 p.m. in the House Chamber.

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REVENUE UPDATE- FY 2016 and 2017

The state's economists, Tom Kavet (Legislature) and Jeff Car (Executive Branch) discussed the continued slow economic recovery with the Emergency Board members on Monday, July 27th. As expected, the vast majority of the changes in the July consensus revenue forecast were due to the tax policy changes enacted during the legislative session, not economic factors. The largest adjustments were to the General Fund revenues, with minor adjustments to the projections for the Transportation Fund and the Education Fund. While the first month of collections do not generally hold a lot of meaning, July revenues are on target overall.

General Fund

The General Fund revenue forecast for FY 2016, the new budget year, was increased by \$40.2 million. The Legislature increased General Fund taxes and other sources by an estimated \$30.4 million in FY 2016, including the individual income tax package, sales tax changes for soft drinks and cloud software, meals tax on vending machine sales, VEGI and affordable housing tax credit changes, and Judiciary fee increases among others. Therefore, less than one-quarter of the increase is due to a strengthening economy. This new estimate results in a GF amount of \$8 million available in FY16 in comparison to the budget as passed in May. Of this amount, \$5 million is balance in the rainy day fund brought forward which will no longer need to be utilized to maintain balance in the GF for FY16.

Transportation and Education Funds

There were no tax changes affecting the Transportation Fund in FY 2016 and the forecast was adjusted downward by \$0.8 million. The Education Fund benefitted from some of the sales tax changes and the FY 2016 forecast was increased by \$1.6 million.

July 2015 Consensus Revenue Forecasts

Fund	\$ Change		Total Revenue	
	FY 2016	FY 2017	FY 2016	FY 2017
General	\$40.2	\$29.9	\$1,433.3	\$1,482.6
Transportation	-\$0.8	-\$0.6	\$265.8	\$270.2
Education	\$1.6	\$1.7	\$191.2	\$197.2

FY 2017 and Beyond

Out-year projections for all three major State funds show slow growth. The available General Fund increase in FY 2017 is 3.4% and in the lower 3% range in out years. The Transportation Fund is projected to increase by 3.4% in FY 2017 and slow to the 2% range thereafter while the non-property tax Education Fund revenues are estimated to grow at 3.2% in FY 2017 and less thereafter. This slow revenue growth will continue to exacerbate budget gap estimates if spending demands continue to increase at a rate that is much higher than revenue growth. In addition, many of the tax sources that were increased to meet the FY 2016 budget level are projected to have slower than average growth trajectories, such as the sales tax on soft drinks or negative growth, such as the cigarette tax.

FY2015 CLOSE OUT IN GENERAL FUNDS AND MEDICAID

At the close of FY 2015 forecast General Fund revenues were \$17.9 million, or 1.3%, over the revised January 2015 forecast. Income tax revenues were \$4.1 million, or about 0.6%, over forecast. Due to several isolated events, Corporate Tax Revenues were \$19.3 million, or 19%, over target. Sales and Use and Meals and Rooms were essentially on target. Estate Tax trailed the January forecast by \$14 million, offsetting the Corporate Tax windfall.

In total including funds transfers, FY15 GF resources exceeded the amount anticipated by \$25.19 million. This allowed the contingent appropriations for FY15 specified in Sec. C. 108 of Act 58 to be made as follows:

- \$5 million to supplement federal LIHEAP funding in the 2015-2016 heating season;
- \$13 million reserved for Medicaid – FY15 closeout and FY 2016 trend.

The remaining \$7.19 million is allocated by the formula set in 32 V.S.A. § 308c as follows:

- 25% or \$1.797 million for the Education Fund;
- 50%, or \$3.595 million for payback of the retired teachers health care borrowing; and
- 25% or \$1.797 million for the rainy day reserve.

32 V.S.A. § 308c also specifies the calculation for any ongoing increase in the transfer from the GF to the EF when there is a year-end surplus and an increase in the GF revenue forecast for the new fiscal year. The Emergency Board determined that \$7.09 million was available per the statute specifications to which 33% is applied resulting in an ongoing increase of \$2.34 million

for the GF to EF transfer in Fiscal Year 2017. This will require a statutory amendment that rebases the transfer reflecting this adjustment as the transfer is indexed for the future.

The Emergency Board also received a copy of the [Medicaid year-end report](#). The report shows that in gross state and federal funding the Medicaid program ended FY15 with expenses coming in \$30 million above the amount expected in budget adjustment. This overage was anticipated last spring through the Medicaid weekly expense tracking known as the '52 points.' It was covered by the FY15 year-end GF contingent appropriation and short term transfers into the program. The report also shows that enrollment was much higher than expected. The caseload and utilization components of the program cost trend require more analysis.

STUDIES UNDERWAY BY JFO

Study of the Cost of an Adequate Education in Vermont

Legislation enacted last session directed the JFO to contract for a study of the cost of an adequate education in Vermont. In response to a request for proposals released on June 2nd, the JFO received three proposals. These proposals were evaluated on the basis of several criteria and the bidders were interviewed by a selection committee that included representatives of the JFO and the Agency of Education.

On the basis of this review, the selection committee unanimously ranked Picus Odden & Associates as the best among the three bidders. JFO entered into a contact with this firm on August 1st; this firm has been the prime contractor in more adequacy studies than any other in the country and has a long-term relationship with Vermont. [The Picus Odden & Associates' proposal](#) and other relevant documents are available on the JFO website.

Universal Primary Care Study

Universal Primary Care: JFO is working with the Administration on a study of the cost of providing universal primary care in Vermont. Wakely Consulting Group was chosen as the contractor. The study group is working with Wakely and GMCB to establish a more precise definition of primary care based on codes and type of provider. Biweekly project management meetings started in early August.

Public Employee Benefits Study

Public Employee Benefits: JFO is working with the Administration and a number of public employee groups to explore options related to the excise tax on high-premium health insurance plans. Two large-group meetings have taken place thus far. The group is reviewing a slide deck to be used with policymakers and talking about the data, assumptions, and decisions needed to complete the study. Employee groups represented at the meetings include public employees from the State, cities and towns, education, higher education, and State troopers.

FEDERAL TRANSPORTATION REAUTHORIZATION BILL UPDATE

Congress passed and the President signed a bill extending the current level of transportation spending until the end of October. Both the U.S. House and Senate have stated they are committed to passing a six-year reauthorization bill by that time.

JULY 27, 2015 JOINT FISCAL COMMITTEE ACTIONS

The Joint Fiscal Committee met on July 27, 2015 and heard testimony on several issues, including a presentation by Tom Kavet on the updated official revenue forecast adopted by the Emergency Board and an update from the Administration on unencumbered balances and the FY 2015 contingent General Fund appropriation.

In addition, the Committee took testimony on a proposal by the Administration to adopt revised fees for the State's Web Portal. It was decided that this issue would be deferred for action to the 2016 legislative session in order to allow appropriate standing committees to take testimony.

JOINT FISCAL OFFICE NEWS

As many of you may have noticed last legislative session, the building that houses the Joint Fiscal Office and some of the Legislative Council staff had some rather unusual looking hoses hanging from each window. This temporary fix was an attempt to provide some ventilation for the heating system after it was discovered that fumes were venting into our offices. In order to permanently fix the problem, the Department of Buildings and General Services is moving all occupants out of the building for about six weeks so that it can install new radiators. You will be able to find us physically located on the third floor of the State House in the House committee rooms.

In other news, Dan Dickerson has been detailed to Japan with the Vermont National Guard and will be back in October. His Business Manager responsibilities are being handled by Maria Belliveau in his absence.

Aidan Davis, who worked as a temporary staff member, has left our office and has taken a full-time job with ITEP which does tax policy work.



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